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DECISION



**THE COMPTROLLER GENERAL
OF THE UNITED STATES**
WASHINGTON, D. C. 20548

Clarification of GAO Decision on Leveraging Block Grant Funds by S

FILE: B-197439

DATE: January 30, 1981

MATTER OF: Authority of SBA to leverage Block Grant funds invested in minority enterprise small business investment companies.

DIGEST:

Section 105(a)(15) of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5305(a)(15), authorizes SBA to leverage (match) Community Development Discretionary (Block) Grant funds invested in minority enterprise small business investment companies.

Recently, the Small Business Administration (SBA) turned down an application from Square Deal Venture Capital Corporation, a minority enterprise small business investment company (MESBIC) for leveraging (matching) funds under the Small Business Investment Act, citing our decision B-197439, July 29, 1980, as the reason. SBA explained that the July 29 decision prohibited it from leveraging Federal funds invested in small business investment companies. Since Square Deal's application was based on Federal investments (from Community Development Discretionary (Block) Grant funds under Title I of the Housing and Community Development Act of 1974, as amended), SBA said it had no alternative but to return the application. Square Deal has asked us whether our earlier decision applies to its situation. In addition, we have had informal discussions with officials of SBA and the Office of Management and Budget concerning the applicability of our July 29 decision to various MESBICs that have different sources of Federal funding. Therefore, we are issuing this decision to assist SBA in interpreting our earlier decision.

Our decision of July 29, 1980, held that SBA did not have authority to leverage funds invested in MESBICs by the Minority Business Resource Center of the Department of Transportation because section 303(c)(2)(iii) of the Small Business Investment Act, 15 U.S.C. §683(c)(2)(iii), authorizes SBA to leverage only "private" money. Since the Minority Business Resource Center uses Federal money, we held that its investments in MESBICs could not be leveraged. We also said, however, that where a statute such as section 742(a)(1) of the Community Services Act, 42 U.S.C. §2985a(a)(1), authorizes it, Federal money may be leveraged. We think section 105(a)(15) of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5305

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(a)(15), the pertinent statute in the present case, is such a statute--i.e., it authorizes leveraging of Block Grant funds (Federal money) invested in MESBICs. Therefore, our decision does not provide a basis for denying Square Deal's application.

Section 105(a)(15) of the Housing and Community Development Act of 1974, as amended, provides that Community Development Programs assisted under Title I (Community Development) of that Act may consist only of certain enumerated activities, including:

"(15) grants to neighborhood-based non-profit organizations, local development corporations, or entities organized under section 301(d) of the Small Business Investment Act of 1958 [MESBICs] to carry out a neighborhood revitalization or community economic development project in furtherance of the objectives of section 101(c)."

While this provision appears on its face to do no more than authorize the investment of Community Development money in MESBICs, the legislative history indicates that it was intended that these funds be eligible for leveraging. The words "or entities organized under section 301(d) of the Small Business Investment Act of 1958" were added by amendment to both the House and Senate bills after they were reported out of their respective committees. In offering the amendment, both Congressman Mitchell, in the House, and Senator Brooke, in the Senate, explained that the amendment would qualify the funds for SBA leveraging. Congressman Mitchell, after pointing out the difficulties in securing bank loans, said:

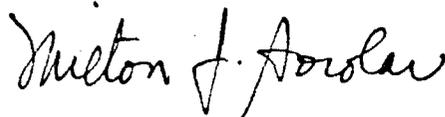
"A partial solution to this problem is to allow localities to use some of their Community Development funds to capitalize viable MESBICs, therefore, allowing their qualification for 3 to 1 leverage * * * from the Small Business Administration." 123 Cong. Rec. 14117 (1977).

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In the same vein, Senator Brooke said:

"A partial solution to this problem is achieved by this amendment. This minor classification [i.e. specific authorization for investment of Community Development money in MESBICs] would allow MESBIC's to benefit from the more favorable 3 to 1 leverage * * * from the Small Business Administration." 123 Cong. Rec. 17851 (1977).

It seems clear that the specific reference to MESBICs in section 105(a)(15) was intended, by those who introduced that language, to permit leveraging by SBA. And it is reasonable to assume that the Congress, in adopting that language, shared the views of Congressman Mitchell and Senator Brooke. See Sutherland on Statutory Construction, sections 48.10 and 48.12. Unlike the circumstances involved in our earlier decision, concerning the Department of Transportation funds, the statute involved here specifically refers to financial assistance to MESBICs and its legislative history clearly shows that the legislators had leveraging in mind when they enacted it. Therefore, we conclude that section 105(a)(15) of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. §5305 (a)(15), authorizes SBA to leverage Block Grant funds invested in MESBICs.



For the Comptroller General
of the United States